

# Appraiser Update

March 2020

## Periodic updates for residential appraisers serving Fannie Mae lender customers

Welcome to our first Fannie Mae Appraiser Update of 2020. In this edition, we dive into horizontal property regimes, more about multiple parcels, and the act of selecting comparables. We also share feedback we got from you on tools you use to modernize your process, as well as our own updating of the Fannie Mae website!

Since our first publication in April 2017, more than 14,000 appraisers and mortgage professionals have signed up to receive the latest industry insights and policy updates from Fannie Mae. Thank you for your commitment to excellence!

Collateral Policy Team  
Fannie Mae

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## What is a Horizontal Property Regime?



Over the years, appraisers and lenders have asked questions about developments completed as Horizontal Property Regimes (HPRs). It can be hard for appraisers to determine if these developments are condos, planned unit developments (PUDs), or something else. This can impact which appraisal form should be used as well as how to complete the analysis.

In some markets, HPRs are another name for a condominium development, while other markets may use the term to describe PUDs. In a handful of places, HPRs may be either a condominium or PUD development, depending on how the project was set up by its legal documents.

We generally consider a development to be a condo project any time it is declared and/or filed as an HPR in accordance with local statutes, because HPRs have typically been used to describe condos. However, when a local statute provides for the HPR to be created as a PUD development and the project's legal documents specifically state that the project is a PUD, the lender and appraiser should treat the HPR as a PUD.

When appraisers are having trouble determining if an HPR is a condo or a PUD, they may obtain the project's legal documents to make the determination or request additional information from the lender to clarify the property type. Fannie Mae plans to update its *Selling Guide* in the next few weeks to provide guidance on this topic for lenders and appraisers.

## How are you modernizing?



In our last edition, we talked about some of the technologies that appraisers use to help with property inspections and analysis. We asked you to share some of the tools that you use with your fellow appraisers. One of our readers from Texas wants to share a free resource that that state provides to locate oil, gas, and pipeline data in a map view. She finds this especially helpful in rural areas and in determining compliance with local zoning.

You can find an interactive map with approximate locations, types, and other information about wells in Texas [here](#). Similar information on oil and gas wells in Florida is provided on the American Geosciences Institute website [here](#), which includes links to other similar interactive maps around the country. Thanks for sharing, Tracy!

What technologies do you use when completing your appraisals? Send us a comment via the Contact Us feature on the Appraisers page at [fanniemae.com/appraisers](https://fanniemae.com/appraisers) and we may feature your tip in an upcoming newsletter.

This summary is intended for reference only. All criteria are subject to the formal terms and conditions of the Fannie Mae *Selling Guide*. In the event of any conflict with this document, the *Selling Guide* will govern.



## Meaning of comparable



Appraisers and users of appraisal reports typically think of the term “comparable” as a noun referring to a transaction displayed in the market analysis section of an appraisal report. The appraiser’s choice of comparables is sometimes a contentious topic with users of the appraisal report. But, the first meaning of “comparable” that comes up in most dictionaries is as an adjective. It conveys the ability to make a comparison rather than the object of the comparison. Taking this linguistic exercise one step further, there is a word (an action verb) derived from the same Latin root that means to make a comparison (and we all know it): to compare.

The more similar a property is to the subject property, the easier it is to compare, so the tried-and-true best practice is to select comparables that are most similar, thus reducing the degree of difficulty in the comparison. But, appraisers cannot control the available sales activity within a market at any given time — there is an element of luck in any population of potential comparables — and there is no single right way to test for similarity.

If we’re competent to appraise anything beyond the simplest of assignments, then we must be skilled at comparing dissimilar transactions.

Our point here is not to preach about how to choose or adjust comps. Instead, it is that being an appraiser fundamentally requires competency in the ability to compare dissimilar transactions. Once that competency is gained, then the choice of comparables becomes less contentious. The act of comparison becomes preeminent.

An appraiser who is expertly skilled at comparison will be guided by the comparison toward a consistent value opinion regardless of the comparable selection. Being able to demonstrate that the preponderance of data, unfiltered, leads to the same outcome will make our value estimates truly credible. (But don’t stop searching for the most similar comps!)





## More about multiple parcels



USPAP Standards Rule 1-3 states, “When necessary for credible assignment results in developing a market value opinion, an appraiser must ... develop an opinion of the highest and best use [HBU] of the real estate.” It further comments, “An appraiser must analyze the relevant legal, physical, and economic factors ... to support the appraiser’s highest and best use conclusion(s).”

Fannie Mae’s policy requires that the mortgaged premises must be the highest and best use of the property as improved (or as proposed per plans and specifications). ([Selling Guide B2-3-01, Property Requirements.](#)) Also, our appraisal forms ask: “Is the highest and best use of the subject property as improved (or as proposed per plans and specifications) the present use?” For the appraiser to comply with the policy (assignment condition) and provide a credible answer, it is necessary for the appraiser to perform an HBU analysis “as improved.”

The intended use of the appraisal for Fannie Mae compliant loans is to evaluate the subject property for a mortgage finance transaction. The mortgage is legally binding. The standard terms of the mortgage prohibit many potential uses, thus simplifying the appraiser’s HBU analysis per the legal test. For example, to destroy the existing improvements would violate the mortgage and the HBU cannot be anything less than the existing (or proposed) improvements.

Applying the physical HBU test to a multiple parcel assignment, the appraiser must consider whether the significant functional components — such as driveway, car storage, well, septic, fencing, or other amenities — are distributed across multiple parcels and whether they straddle lot boundaries. Surplus land is a possible value consideration for multiple parcel assignments.

### New Single-Family site

Fannie Mae’s improved [Single-Family website](#) has launched, which includes a reformatted [Appraisers page](#). Enhancements include a new search functionality and optimization for use on all devices. Now all help and training resources are available in one place by clicking the Help & Training link at the top right of the page.

### AQM FAQ updates

The Appraiser Quality Monitoring (AQM) FAQs have been revised to emphasize the learning opportunities the AQM letters present. Read the FAQs [here](#).



Applying the legal HBU test to multiple parcels, the Fannie Mae *Selling Guide* requires that “[t]he mortgage must be a valid first lien that covers each parcel.” (See [B2-3-04, Special Property Eligibility Conditions](#).) Thus, excess land (capable of a separate use — i.e., subdivided and marketed as individual parcels) is not a possible outcome of the HBU analysis because the parcels cannot be separated without mortgagee consent. This is consistent with other secondary market guidelines that typically require all parcels to be encumbered by a single lien or prohibit valuation as excess land.

In cases where the intention is to include multiple parcels, but they are not yet encumbered together, the appraiser may make the appraisal “subject to” recording of the lien. The lender may clear the requirement by documenting that the lien has been recorded on the intended parcels.

Note: Helpful references include USPAP Standard 1-4 (e) and Fannie Mae [Selling Guide B4-1.3-04, Highest and Best Use](#).



### Contact Fannie Mae about appraisal topics

Use the [“Contact Us” form](#) to share what’s on your mind and submit feedback and questions on appraisal topics.

### Connect with us! We’ll be at:

**Appraisal Institute Annual Conference**  
Orlando, FL • August